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Message Text

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42
ACTION SS-30

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C O N F I D E N T I A L MEXICO 8614

EXDIS

E.O. 11652: GDS
TAGS: OVIP, MX
SUBJ: TOPICS FOR PRESIDENT'S VISIT: IN-BOND BORDER INDUSTRIES

1. TOPIC OF IN-BOND ASSEMBLY PLANTS, ALMOST ALL LOCATED ALONG U.S.-MEXICAN BORDER, MAY BE RAISED BY PRESIDENT ECHEVERRIA. EMBASSY DOES NOT RECOMMEND THAT SUBJECT BE RAISED BY OUR SIDE. AT PRESENT THERE ARE SOME 450 COMPANIES IN MEXICO OPERATING UNDER THE TERMS OF THE BORDER INDUSTRIALIZATION PROGRAM, EMPLOYING APPROXIMATELY 70,000 MEXICAN WORKERS. SINCE MEETING WILL BE AT BORDER AND AS SUCCESS OF THIS GOM INITIATIVE IS OF CRUCIAL IMPORTANCE TO BORDER RESIDENTS, GOM MAY RAISE.

2. TRADE REFORM ACT (TITLE II, CHAPTER 1(3NWOULD GIVE PRESIDENT AUTHORITY TO WITHDRAW APPLICATION OF 806.30 AND 807.00 PROVISIONS AS IMPORT RELIEF MEASURE. SHOULD THESE PROVISIONS BE WITHDRAWN, MANY IN-BOND FIRMS (LOCALLY REFERRED TO AS "MAQUILADORES"), PERHAPS AS MANY AT 40 PERCENT, COULD NO LONGER OPERATE PROFITABLY AND WOULD BE FORCED TO CLOSE WITH RESULTING UNEMPLOYMENT. APPAREL FIRMS, IN PARTICULAR, WHICH WOULD HAVE TO PAY DUTIES OFTEN IN EXCESS OF 40 PERCENT AD VALOREM COULD NOT OPERATE WITHOUT BENEFIT OF 807. ORGANIZED LABOR IN Q.S. HAS ALWAYS BEEN STRONGLY OPPOSED TO OVERSEAS IN-BOND OPERATIONS AND LOBBIES FOR ELIMINATION OF 806.30 AND 807 PROVISIONS.

3. FOR PAST SEVERAL YEARS, IN-BOND INDUSTRY PROGRAM WAS GROWING AT AVERAGE ANNAUL RATE OF 16 PERCENT. IN 1974, HOWEVER, THERE HAS BEEN ALMOST NO GROWTH, BOTH IN TERMS OF NEW COMPANIES AND ADD-
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ITIONAL EMPLOYMENT. THIS IS A RESULT OF DECLINING DEMAND IN U.S.

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FOR PRODUCTS AND SUB-ASSEMBLIES ASSEMBLED IN MEXICO, PARTICULARLY IN THE ELECTRONIC AND AUTOMOTIVE FIELDS, COMBINED WITH RAPIDLY RISING MEXICAN COSTS. IN LESS THAN TWO YEARS, LABOR COSTS ALONE HAVE INCREASED BY MORE THAN 60 PERCENT. MEXICO IS FAST LOOSING ITS COMPETITIVE POSITION VIS-A-VIS OTHER COUNTRIES WHICH OFFER IN-BOND FACILITIES SUCH AS TAIWAN, KOREA, BRAZIL, ECTC. MOREOVER, HIGH DEGREE OF UNION MPLITANCY IN BORDER STATES OF TAMAULIPAS AND COAHUILA HAS FRIGHTENED U.S. MANAGERS AND DISCOURAGED NEW INVESTMENT. MOST LARGE MAQUILADORES ARE OWNED BY TRANSNATIONAL CORPORATIONS WHICH HAVE TENDENCY TO REDUCE OR CLOSE OVERSEAS OPERATIONS IN FACE OF DECLINING DEMAND BEFORE CUTTING BACK ON PRODUCTION IN U.S. PLANTS, AND THIS IS EXAMPLE OF CONDUCT OF TRANSNATIONALS OBJECTIONABLE TO GOM.

4. THERE IS LITTLE USG CAN OR SHOULD DO TO REVIVE MEXICAN BORDER INDUSTRIALIZATION PROGRAM. BY PROVIDING EMPLOYMENT IN MEXICO, IN-BOND PLANTS REDUCE SOMEWHAT FLOW OF ILLEGAL MIGRANTS ACROSS BORDER BUT OVERSEAS ASSEMBLY PLANTS HAVE ALBO HAD NEGATIVE IMPACT ON SOME U.S. COMMUNITIES. GOM COULD COUNTER NEGATIVE FACTORS NOTED IN PARA 3 BY MITIGATING UNION DEMANDS, GRANTING CERTAIN TAX INCENTIVES, AND FACILITATING WORKING PAPERS FOR U.S. MANAGERS AND TECHNICIANS.
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